

APPENDIX H. METHODOLOGY FOR ESTABLISHING MAXIMUM RENT

The "maximum rent" for public and Indian housing authorities (HAs) referred to in Step 2 of paragraphs 11-4 and 11-5 of Guidebook 7465.7, Restrictions on Assistance to Noncitizens, is determined by the HA by using the methodology specified in this Appendix H.

1. Background. The maximum rent is based on the value of the 95th percentile of the total tenant payment (TTP) for each tenant within the HA. The TTP, including any utility allowance, is determined pursuant to 24 CFR §913.107 for public housing and 24 CFR '950.325 [formerly '905.325] for Indian housing. These are the values reported on Line 14 of Form HUD-50058 (dated 6/93). NOTE: DO NOT use ceiling rents in lieu of the TTP even though a ceiling rent may be applicable to one or more eligible tenants. Further, because the maximum rent is based on the 95th percentile, the maximum rent may be more or less than the income-based TTP otherwise payable by a tenant.

Initially, the HA must establish how the maximum rent will be applied. It is necessary to establish the maximum rent by unit size in order to make it applicable to the situation of a particular eligible family. This can be accomplished in several ways. The maximum rent may be applied on either an HA- or project-wide basis. A separate maximum rent can be provided for each separate project or projects may be combined into logical groups, if appropriate. It is suggested that a single project basis be avoided for a project unless at least 50 dwelling units are involved. Further, the maximum rent may be broken out so as to provide for separate maximum rents based on family and elderly (including handicapped) composition (either by project(s)- or on an HA-wide basis). For example, it would be useful to aggregate the dwelling units of elderly projects because they are primarily composed of zero- and one-bedroom units. Nonetheless, unless an HA has unusual dwelling unit characteristics, the use of an HA-wide schedule of maximum rents should be sufficient.

2. Determining the 95th Percentile. The following steps illustrate the procedure used to determine the 95th percentile:

Step 1. Following the suggestions provided in paragraph 1 above, determine the HA or project data base universe applicable to the maximum rent schedule to be established.

Step 2a. Collect the TTPs for the tenants within the selected data base universe established in Step 1. The following illustrates how the TTPs might be listed (dots (...) are used in the example to connote a string of TTPs which were intentionally omitted in the listing for convenience in presentation):

100, 212, 150, 200, 150, ..., ..., 400, 150, 248, 160, 300, etc.

Step 2b. Rearrange the TTPs into ranking order, lowest to highest. For example, the TTPs listed in Step 1 would be arrayed as:

100, 150, 150, 150, 160, ..., ..., 200, 212, 248, 300, 400

Note: Steps 2a and 2b may be combined, if practical. Also, a simple data base program using the rent roll may assist in performing this task.

Step 3. Locate the 95th percentile threshold by multiplying the total number of TTPs in the data base (N) by 5 percent (i.e., 0.05). If N 150, then the threshold would be 150 x 0.05 or 7.5. In this illustration, the 95th percentile would fall between TTP No. 7 and No. 8 from the highest TTP shown on the ranked TTPs. Since the 95th percentile falls between two numbers, rounding the result down (i.e., from 7.5 to 7 in the example) will result in selecting the higher amount. This ensures that the cutoff threshold will include all TTPs at or below the 95th percentile.

3. Direct Comparison Method For Establishing Maximum Rent. The preceding procedure may be used if the process is restricted to TTPs of dwelling units of the same bedroom size. Under this direct comparison process, it is possible to establish a specific maximum rent for each bedroom size. Simply repeat the procedure for each bedroom size involved.

4. The Unit Distribution (Two-Bedroom) Method For Establishing Maximum Rent. In some situations, the universe of dwelling units will not readily lend itself to use of the direct comparison method. This situation might occur where an HA-wide maximum rent is desirable or the HA has too few dwelling units for one or more unit sizes to provide a sound data base. In this event, it is possible to establish the 95th percentile based on the total mix of bedroom sizes included in the universe.

The two-bedroom method is based on the premise that the 95th percentile provides a maximum rate which is equitable for a two-bedroom unit. That is, it is presumed that the unit sizes are distributed on a statistical basis which results in the 95th percentile coinciding with the maximum rate for a two-bedroom unit.

The unit distribution method is calculated using a unit rent relationship, which is based on the rent of a two-bedroom unit (100%). The rent relationships vary from 70% of the two-bedroom rent for an efficiency to 182% of the two-bedroom rent for a six-bedroom unit. The adjustment factors for all units are as follows: zero-bedroom units (efficiencies) 0.70; one-bedroom units 0.85; two-bedroom units 1.00; three-bedroom units 1.25; four-bedroom units 1.40; five-bedroom units 1.61; and six-(and larger)-bedroom units 1.82. This is the same adjustment established to calculate ceiling rents. These factors were published on March 15, 1989, in the Federal Register, at 49 FR 10735.

The calculation is performed by multiplying the value of the 95th percentile (P) times the adjustment factor (F). The result is the maximum rent (MR) for each bedroom size. The formula is:

$$P \times F = MR$$

To illustrate this second method, assuming the 95th percentile was determined to be \$195, then the applicable maximum rents would be

determined as follows:

Bedroom Size	TWO-BEDROOM METHOD		Maximum Rent 1/ (MR)
	Value of 95th Adjustment		
	Percentile	Factor	
	(P)	(F)	
"0 "	\$195	0.70	\$137
"1 "	\$195	0.85	\$166
"2 "	\$195	1.00	\$195
"3 "	\$195	1.25	\$244
"4 "	\$195	1.40	\$273

1/ Round the result to the nearest whole dollar.

5. Consideration of Ceiling Rents. A ceiling rent policy, approved by HUD and adopted by the HA' is not applicable to the determination of the maximum rent. That is, the maximum rent will be applied for the purpose of determining the amount of subsidy for which the family is eligible ("eligible subsidy"). The family's rent is the "public [or Indian] housing maximum rent" minus the amount of the eligible subsidy, irrespective of whether a ceiling rent would otherwise be applicable to the eligible family. See also paragraphs 11-4 and 11-5 of the Guidebook ['912.11(b); 950.310(s)].

6. Redetermination of Prorated Assistance. The amount of prorated housing assistance provided pursuant to paragraphs 11-4 and 11-5 may be recalculated at the time the maximum rents are revised or at the eligible family's next scheduled recertification, as determined by the HA's policy. In addition, the amount of housing assistance shall be recalculated whenever there has been a change in family composition or income.

7. Revision of Maximum Rents. The maximum rents must be calculated at least annually, but no more frequently than monthly. The schedule of maximum rents may be modified from time to time by the HA provided that the HA shall give at least 30-day written notice to each affected tenant setting forth the proposed modification and the reasons therefor. However, since the determination of maximum rents is calculated as prescribed by HLD, any revision and notification does not require providing the tenant an opportunity to present written comments or for the HA to take into consideration any comments informally submitted prior to the proposed modification becoming effective.

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8. Posting of Maximum Rents. The Schedule of Maximum Rents shall be publicly posted in a conspicuous manner in the HA or Project Office and shall be furnished to applicants and tenants upon request.

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